

Whitemud Resources Inc.
Financial Statements
For the years ended December 31, 2019 and 2018

Independent Auditor's Report

To the Shareholders of Whitemud Resources Inc.:

Opinion

We have audited the financial statements of Whitemud Resources Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the statements of net income and comprehensive income, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that, as at December 31, 2019, the Company had a working capital deficiency of \$16,598,615 and a deficit of \$100,045,180. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Laluk.

Calgary, Alberta

April 28, 2020

MNP LLP

Chartered Professional Accountants

WHITEMUD RESOURCES INC.
Statements of Financial Position
As at December 31,
(Expressed in Canadian Dollars)

	2019	2018
Assets		
Current Assets		
Cash	\$ 912,823	\$ 52,266
Accounts receivable [notes 14 and 17]	6,911,667	7,948,190
Taxes recoverable	-	21,030
Inventory [note 4]	676,242	870,702
Prepaid expenses and deposits	14,074	22,896
Total Current Assets	8,514,806	8,915,084
Property, plant and equipment [note 6]	861,600	1,455,496
Total Assets	\$ 9,376,406	\$ 10,370,580
Liabilities and Shareholders' Deficiency		
Current Liabilities		
Accounts payable and accrued liabilities [note 14 and 17]	\$ 964,475	\$ 3,633,434
Taxes payable	9,385	-
Notes payable [note 7]	24,139,561	24,639,561
Total Current Liabilities	25,113,421	28,272,995
Asset retirement obligation [note 8]	1,052,147	964,225
Total Liabilities	26,165,568	29,237,220
Shareholders' Deficiency		
Share capital [note 9]	77,902,637	77,902,637
Contributed surplus	5,353,381	5,353,381
Deficit	(100,045,180)	(102,122,658)
Total Shareholders' Deficiency	(16,789,162)	(18,866,640)
Total Liabilities and Shareholders' Deficit	\$ 9,376,406	\$ 10,370,580

Going concern [note 1]
Subsequent event [note 18]

On behalf of the Board of Directors:

“Stan Owerko”

Director

“Vince Davoli”

Director

WHITEMUD RESOURCES INC.
Statements of Net Income and Comprehensive Income
For the years ended December 31,
(Expressed in Canadian Dollars)

	2019	2018
Revenue	\$ 4,446,543	\$ 3,011,315
Expenses		
Operating	872,293	1,280,924
General and administration	695,544	568,931
Finance charges <i>[note 11]</i>	19,540	22,592
Impairment <i>[note 6]</i>	500,000	3,010,705
Depreciation <i>[note 6]</i>	163,579	860,126
	2,250,956	5,743,278
Income (loss) before interest and other income	2,195,587	(2,731,963)
Gain on forgiven interest on debt <i>[note 7]</i>	-	16,084,062
Interest and other income (expense)	(118,109)	143,472
Net income and comprehensive income	2,077,478	13,495,571
Net income per share, basic and diluted <i>[note 12]</i>	\$ 0.01	\$ 0.04

WHITEMUD RESOURCES INC.
Statement of Changes in Shareholders' Deficiency
For the years ended
(Expressed in Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance December 31, 2017	\$ 77,902,637	\$ 5,353,381	\$ (115,618,229)	\$ (32,362,211)
Net income and comprehensive income	-	-	13,495,571	13,495,571
Balance December 31, 2018	\$ 77,902,637	\$ 5,353,381	\$ (102,122,658)	\$ (18,866,640)
Net income and comprehensive income	-	-	2,077,478	2,077,478
Balance December 31, 2019	\$ 77,902,637	\$ 5,353,381	\$ (100,045,180)	\$ (16,789,162)

WHITEMUD RESOURCES INC.**Statements of Cash Flows**

For the years ended December 31,

(Expressed in Canadian Dollars)

	2019	2018
Cash provided by (used) in:		
OPERATING ACTIVITIES:		
Net income and comprehensive income	\$ 2,077,478	\$ 13,495,571
Items not involving cash:		
Depreciation	163,579	860,126
Impairment	500,000	3,010,705
Gain on forgiven interest on debt <i>[note 7]</i>	-	(16,084,062)
Accretion of asset retirement obligations <i>[note 8]</i>	18,240	21,420
Change in non-cash working capital <i>[note 16]</i>	(1,398,740)	(1,317,615)
Cash flows provided by (used in) operating activities	1,360,557	(13,852)
FINANCING ACTIVITIES:		
Repayment of notes payable <i>[note 7]</i>	(500,000)	-
Cash flows used in financing activities	(500,000)	-
Increase (decrease) increase in cash	860,557	(13,852)
Cash, beginning of year	52,266	66,118
Cash, end of year	\$ 912,823	\$ 52,266

1. NATURE OF THE ORGANIZATION AND FUTURE OPERATIONS

Whitemud Resources Inc. (the "Company") was originally incorporated as the General Partner of Whitemud Resources Limited Partnership (the "Partnership") on April 28, 2005 under the laws of the Province of Alberta, Canada. The Company was restructured through an amalgamation between the Company and the Partnership under the laws of the Province of Alberta on July 27, 2006. The Company is headquartered in Calgary, Alberta, Canada. The registered address of the Company is 3900 Bow Valley Square 2, Calgary, Alberta T2P 2V7.

The Company was formed to engage in the business of developing a process to mine and process kaolin into a high-reactivity metakaolin that imparts beneficial properties to concrete mixtures containing up to 20% replacement of Portland cement. Since inception, the efforts of the Company have been devoted to the development of a process of producing kaolin and metakaolin, developing market demand, and planning and constructing the production facilities to manufacture the product. The Company has launched industrial production from its facility. However, the Company has not earned sufficient revenues and the future is dependent on customer acceptance of the product, further development of markets, and its ability to obtain additional financing. With the formation of a new division, Midstream Energy Partners, the Company will also market hydrocarbon products. To date, the Company has been funded primarily from proceeds of an initial public offering, private placements of special warrants, the issuance of convertible debentures and notes payable.

Going Concern

These financial statements were prepared by management in accordance with International Financial Reporting Standards applicable to a going concern entity which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The uncertainty in the use of the going concern assumption is impacted by the following factors.

As at December 31, 2019, the Company had a working capital deficiency of \$16,598,615 and a deficit of \$100,045,180, however, during the year ended December 31, 2019, the Company had a net income and comprehensive income of \$2,077,478 and operating cash inflows \$1,360,557. In order for the Company to continue operations for the longer term, including generating sufficient cash flows and ultimately attaining profitable operations, additional financing will be required. As a result of the economic uncertainties surrounding the oil and gas industry, an impairment of \$500,000 (2018 - \$3,010,705) was recorded in the year ended December 31, 2019.

The matters and conditions noted above indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Based on the Company's current projections, including budgeted loss and negative cash flows, future operations are dependent on the Company's ability to identify financing options, to generate improved market acceptance for the Company's product and the ongoing support of its creditors. Management is currently reviewing its options for additional financing. The creditors have not demanded repayment of the loan to date and have given assurance that they will not demand repayment of the loans before the maturity date. There may be significant challenges in obtaining long term financing in order to meet its obligations.

The ability of the Company to continue as a going concern and realize the carrying value of its assets and discharge its liabilities when due, is dependent on the successful completion of the actions taken or planned by management. There is no certainty that these and other strategies will be sufficient to permit the Company to continue beyond the foreseeable future as such strategies are contingent upon new equity or debt funds from shareholders, investors and lenders, as well as improved market acceptance and revenues for the Company's product.

The financial statements do not reflect any adjustments relating to the recoverability and classification of recorded assets or liabilities that may be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Those adjustments would be material.

2. BASIS OF PREPARATION

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committees (“IFRIC”) effective as at January 1, 2019.

These financial statements were authorized for issuance by the Board of Directors of the Company on April 28, 2020.

These financial statements have been prepared on a historical cost basis except for financial instruments classified as financial assets at fair value through profit or loss (“FVTPL”) that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except cash flow information.

Changes in Accounting Policies

IFRS 16, “Leases”

As required, the Company adopted IFRS 16 as of January 1, 2019. On January 13, 2016, the IASB published a new standard, IFRS 16, “Leases”. The new standard brings most leases onto the balance sheet under a single model, eliminating the distinction between operating and finance leases. Under the standard, a lessee recognizes a right-of-use (“ROU”) asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciates accordingly. The liability accrues interest.

The Company has elected to use the modified retrospective approach in its adoption of IFRS 16. The modified retrospective method does not require restatement of prior period financial information as it may recognize the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Company’s balance sheets, statement of operations, statements of comprehensive income, statements of changes in equity and cash flow statements are not restated.

The adoption of the standard had no impact on the financial statements, as at the time of the adoption, the Company held no leases under the scope of IFRS 16.

New Standards and Interpretations not yet Adopted

A number of new standards and amendments to existing standards are not yet effective for the year ended December 31, 2019 and have not been applied in preparing these financial statements. The Company does not intend to early adopt any of the amendments to existing standards and does not expect the amendment below to have a material impact on the financial statements, unless otherwise noted.

Business Combination – IFRS 3

In October 2018, the IASB issued amendment to IFRS 3, “Business Combinations”. The amendment clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and outputs, and introduce an optional fair value concentration test. The amendments to IFRS 3 are effective for annual reporting periods beginning on or after January 1, 2020 and apply prospectively, with earlier application permitted. The impact of adoption of IFRS 3 is not expected to have any impact on the financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Company's significant accounting policies as outlined below:

a) Foreign currencies

The presentation and functional currency of the Company is the Canadian dollar, which is the currency of the primary economic environment on which the Company operates. Transactions in currencies other than the Canadian dollar are recorded at the rates of exchange prevailing on the dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Any gains or losses are recorded in the statement of net loss and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued from previous page)

b) Financial Instruments

The Company does not have any derivative instruments.

Non-derivative financial assets

The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss when incurred. Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Cash is included in FVTPL.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses. Accounts receivable are classified as loans and receivables.

Other financial liabilities

The Company has other financial liabilities including accounts payable and accrued liabilities and notes payable.

Such financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

c) Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make critical estimates and judgments that affects the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In the process of applying the Company's accounting policies management takes into consideration existing circumstances and estimates at the date of these financial statements, which affects the reported amounts of income and expenses during the reporting periods. Given the uncertainty inherent in determining these factors, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant areas requiring the use of management estimates relate to, but are not limited to:

(i) Impairment tests

The Company assesses, at the end of each reporting period, whether there is an indication that an asset may be impaired. If any indication of impairment exists, the Company determines the recoverable amount of the asset group. The impairment for long-lived assets is based on assumptions regarding future business volumes, sales prices, costs, cash flows, changes in customer or industry dynamics, new technologies, environmental considerations, economic declines, discount rates and other relevant assumptions.

(ii) Asset retirement obligation

The Company applies a number of assumptions in estimating provisions that are recorded for asset retirement obligations and environmental remediation at the mine site. These factors include estimated future costs, discount rates, anticipated life of the plant and inflation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued from previous page)*

c) Use of estimates and judgments *(continued from previous page)*

(iii) Inventories

The Company values inventories at the lower of cost and net realizable value through inventory allowances. Inventory allowances require estimates and assumptions about forecasted selling prices and the demand for kaolin and metakaolin.

(iv) Trade and other receivables

The Company implemented a simplified expected credit loss model. Expected credit losses of trade and other receivables which include receivables from shareholders are constantly monitored. Expected credit losses are based upon historical values, observed customer solvency, external credit ratings, aging of the receivable and industry risks. The Company has recognized expected credit losses of \$nil (2018 - \$nil).

(v) Taxes

Uncertainties exist with respect to the interpretation of the amount and timing of future taxable income. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable earnings will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable earnings together with future tax planning strategies.

d) Cash

Cash is classified as FVTPL and include balances with Canadian chartered banks.

e) Inventory

Inventories of finished goods, raw materials and operating and maintenance supplies are valued at the lower of cost and net realizable value, with cost determined on a weighted average cost basis. The cost of finished goods includes direct materials and direct labor.

f) Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. This includes the purchase price, any other costs directly attributable to bringing the assets to a working condition for intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

Where an item of property, plant and equipment comprises significant parts with useful lives that are significantly different from that of the asset as a whole, the parts are accounted for as separate items of property, plant and equipment and depreciated accordingly.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognizing an asset determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the Statement of Net Loss and Comprehensive Loss.

Expenditures incurred that renew or refurbish plant and equipment to extend its useful life or increase its productive capacity are capitalized when it is determined that a future benefit will flow to the Company as a result of the renewal.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued from previous page)*

f) Property, plant and equipment *(continued from previous page)*

The Company depreciates the costs of its property, plant and equipment over their estimated useful lives using the following rates and methods:

Processing plant, mine preparation and mine expansion	35% declining balance
Buildings	20% declining balance
Plant equipment	30% declining balance
Computer equipment	30% declining balance
Vehicles	3-year straight line
Furniture and equipment	20% declining balance

g) Impairment of non-financial assets

The Company assesses at each reporting date, whether there is an indication that an asset or a cash generating unit ("CGU") may be impaired. A CGU is the smallest identifiable group of assets that generates cash flows largely independent of the cash inflows from other assets or groups of assets. If any indication of impairment exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of the those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and an impairment loss is charged to the Statement of Net Loss and Comprehensive Loss.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset.

These assessments require the use of estimates and assumptions such as long-term selling prices and volumes, discount rates, future capital requirements, exploration potential and operating performance.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The best evidence of fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the CGU in an arm's length transaction. This is often estimated using discounted cash flow techniques.

Impairment losses are reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized.

h) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. The criteria used to determine if objective evidence of an impairment loss include significant financial difficulty of the obligor; delinquencies in interest or principal payments; and the probability that the borrower will enter bankruptcy or other financial reorganization. If such evidence exists, the Company recognizes an impairment loss, as follows:

3. SIGNIFICANT ACCOUNTING POLICIES *(continued from previous page)*

h) Impairment of financial assets *(continued from previous page)*

(i) Financial assets carried at amortized cost:

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

j) Asset retirement obligations

The Company's operations give rise to decommissioning, restoration and rehabilitation activities. Environmental costs arise when environmental disturbances are caused by the exploration, development or ongoing production of a mineral property interest. The net present value of future restoration cost estimates arising from the decommissioning, restoration and rehabilitation are capitalized to related assets with a corresponding increase in the restoration provision in the period incurred. Discounting using risk free rates that reflect the time value of money are used to calculate the net present value. The capitalized restoration costs are charged against income and loss over the economic life of the related asset, through depreciation on a unit of production method. The restoration provision is accreted to net present value each reporting period with the unwinding of the restoration provision being charged to finance expense in the Statement of Net Income and Comprehensive Income. Actual costs incurred to settle the site restoration obligation are charged against the provision. Any difference between the actual costs incurred and the provision is recognized as a gain or loss in the Statement of Net Loss and Comprehensive Loss in the period in which the settlement occurs. The Company's estimates of restoration costs could change as result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to related assets with a corresponding entry to the restoration provision.

k) Taxes

Taxes on the profit or loss for the periods presented comprise current and deferred tax. Tax is recognized in profit or loss except to the extent that relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax legislation enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities using the tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

l) Royalties

Royalty payments for kaolin quarried and processed under the Quarrying Regulations are recorded to operating expenses as incurred.

m) Loss per common share amounts

Basic loss per common share amounts is calculated using the weighted average number of shares outstanding during the year. Diluted loss per common share amounts are calculated based on the treasury-stock method, which assumes that any proceeds obtained on the exercise of in-the-money options would be used to purchase shares at the average market price. The weighted average number of basic shares outstanding is then adjusted by the net change.

3. SIGNIFICANT ACCOUNTING POLICIES (continued from previous page)

n) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. All operating segments' results are reviewed by the Company's management in order to make decisions regarding the allocation of resources to the segment. Segment results include items directly attributable to a segment as those that can be allocated on a reasonable basis.

4. INVENTORY

The Company has inventory as follows:

	2019		2018	
Metakaolin	\$	390,075	\$	558,558
Spare parts		271,199		297,360
Fuels, coal and miscellaneous		14,968		14,784
	\$	676,242	\$	870,702

Operating expenses includes \$168,483 (2018 - \$230,392) related to the cost of inventory from metakaolin sales.

5. RECLAMATION BOND

In 2012, a \$50,000 letter of credit and corresponding \$50,000 deposit was replaced by a \$1 million letter of credit to the Saskatchewan Ministry of Environment as the first installment towards a reclamation bond for the plant and mine site. The letter of credit was issued by Petrogas Energy Corp.

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Land and buildings	Plant and equipment	Computer equipment, office furniture	Total
Balance December 31, 2017	\$ 28,946,657	\$ 34,006,282	\$ 58,234	\$ 63,011,173
Additions	-	6,240	-	6,240
Balance December 31, 2018	\$ 28,946,657	\$ 34,012,522	\$ 58,234	\$ 63,017,413
Additions	-	69,683	-	69,683
Balance December 31, 2019	\$ 28,946,657	\$ 34,082,205	\$ 58,234	\$ 63,087,096
Depreciation and impairment losses				
Balance December 31, 2017	\$ 24,954,717	\$ 32,688,588	\$ 47,781	\$ 57,691,086
Depreciation	701,056	156,008	3,062	860,126
Impairment	2,010,705	1,000,000	-	3,010,705
Balance December 31, 2018	\$ 27,666,478	\$ 33,844,596	\$ 50,843	\$ 61,561,917
Depreciation	158,704	1,711	3,164	163,579
Impairment	400,000	100,000	-	500,000
Balance December 31, 2019	\$ 28,225,182	\$ 33,946,307	\$ 54,007	\$ 62,225,496
Carrying Amounts				
At December 31, 2019	\$ 721,475	\$ 135,898	\$ 4,227	\$ 861,600
At December 31, 2018	\$ 1,280,179	\$ 167,926	\$ 7,391	\$ 1,455,496

Included in land and buildings is land with a cost of \$486,657 (2018 - \$486,657). Additions of \$69,683 (2018 - \$6,240) to plant and equipment relate to non-cash adjustments to a change in the ARO liability estimate described in note 8.

As a result of the going concern circumstances noted in note 1 and the economic uncertainties surrounding the oil and gas industry, an impairment of \$500,000 (2018 - \$3,010,705) was recorded in the year ended December 31, 2019. The Company determined the recoverable amounts for its CGU using the fair value less costs of disposal method.

7. NOTES PAYABLE

The Company has the following notes payable:

	December 31, 2019	December 31, 2018
Kasten Resources ("Kasten") (a), (c)	\$ 1,139,561	\$ 1,139,561
Petrogas Energy Corp. ("Petrogas") (b), (c)	23,000,000	23,500,000
	\$ 24,139,561	\$ 24,639,561

- (a) Kasten provided funding of \$1,139,561 during receivership. Accrued interest of \$nil (2018 - \$868,257) has been forgiven under an agreement with Kasten.
- (b) Petrogas provided funding totaling \$23,500,000, which includes funding of \$15,984,062 during receivership and operational funding of \$7,515,938 (2018 - \$7,515,938) after receivership to recommence operations. Accrued interest of \$nil (2018 - \$15,215,805) has been forgiven under an agreement with Petrogas.
- (c) During the fourth quarter of 2019, the Company repaid \$500,000 to Petrogas. The creditors have provided an undertaking to the TSX Venture Exchange not to demand repayment of the notes payable prior to December 31, 2020 without prior written notice.

All notes payable are interest-free with no fixed terms of repayment.

8. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation results from ownership of a processing facility and mine property in southern Saskatchewan. The Company has completed construction of the plant and preparation of the mine and commissioned the facility. A third-party assessment of costs to decommission the plant and clean the plant site amounts to \$1,000,000, to be incurred by 2033. Internal assessments of costs to decommission the plant were conducted and revaluations of ARO due to inflation factors and discount rate changes as required by IFRS resulted in revisions of \$69,682 (2018 - \$6,240) due to inflation factors and a decrease in the risk-free interest rate to 1.67% (2018 - 2.15%). The amounts are subject to measurement uncertainty with respect to estimated costs, the actual timing of reclamation, the inflation rate and the discount rates used.

	December 31, 2019	December 31, 2018
Balance beginning of year	\$ 964,225	936,565
Change in estimate	69,682	6,240
Accretion	18,240	21,420
Balance end of year	\$ 1,052,147	964,225

9. CAPITAL MANAGEMENT

As part of the management of capital, the Company prepares annual operating and capital budgets and may from time to time issue new equity or debt in order to finance its capital expenditures. The Company has not declared or paid any dividends on its outstanding shares and any decision to pay dividends in the future would be based upon the financial condition of the Company. The Company may elect to alter its capital structure through the issuance of new shares, issuance of new debt, refinancing of existing debt or by acquiring or disposing of assets.

The capital structure, as disclosed on the Statements of Financial Position, consists of cash, notes payable, and shareholders' deficiency.

	December 31, 2019	December 31, 2018
Cash	\$ 912,823	\$ 52,266
Notes payable	24,139,561	24,639,561
Shareholders' deficiency	(16,789,162)	(18,866,640)

9. CAPITAL MANAGEMENT *(continued from previous page)*

Since August 2011, all operational funding has been provided by Petrogas as disclosed in Note 7 through notes payable.

With respect to the notes payable, the Company has not made required principal and interest payments to creditors and is in default of its loan agreement. The lenders have agreed to a forgiveness of interest in the amount of \$16,084,062, to make the note non-interest bearing and to extend the maturity date of the loan to December 31, 2020. The creditors have provided an undertaking to the TSX Venture Exchange that they will not demand repayment of the loan before the maturity date subject to giving prior written notice. The lenders have waived interest for 2018 and 2019. The Company paid \$500,000 towards the notes payable in the fourth quarter of 2019.

10. FINANCE CHARGES

Financing charges are comprised of:

	2019	2018
Debt service	\$ 1,300	\$ 1,172
Accretion of asset retirement obligation	18,240	21,420
	\$ 19,540	\$ 22,592

11. NET INCOME PER SHARE

Net income (loss) per share is calculated using the weighted average number of shares outstanding. The weighted average number of shares outstanding for the period ended December 31, 2019 is 360,526,000 (2018 - 360,526,000).

12. TAXES

The tax recovery differs from the amount that would be computed by applying the expected tax rates to the loss before taxes. The reasons for the difference are as follows:

	2019	2018
Statutory tax rate	26.50%	27.00%
Income (Loss) before taxes	\$ 2,077,478	\$ 13,495,571
Expected tax recovery	550,532	3,643,804
Change in deferred tax asset not recognised	(550,532)	(3,643,804)
Tax recovery	\$ -	\$ -

The statutory tax rate declined from 27% to 26.5% due to a reduction in the Alberta corporate tax rate on July 1, 2019.

The components of the unrecognized deductible temporary differences are as follows:

	2019	2018
Non-capital losses	\$ 76,737,000	\$ 79,496,000
Property, plant and equipment	17,815,000	17,221,000
Asset retirement obligation	1,052,000	964,000
	\$ 95,604,000	\$ 97,681,000

12. TAXES (continued from previous page)

The Company has non-capital losses of approximately \$76,737,000 (2018 - \$79,496,000) that are available to offset future taxable income. The non-capital losses will expire as follows:

2030	\$	10,851,000
2031	\$	1,171,000
2032	\$	18,586,000
2033	\$	14,785,000
2034	\$	12,211,000
2035	\$	10,658,000
2036	\$	8,475,000

The Company has undepreciated capital cost and resource tax pools of \$18,677,000 (2018 - \$18,677,000) which are available for deduction against future taxable income. The realization of tax benefits related to these future potential tax deductions is uncertain and cannot be viewed as probable. Accordingly, no deferred tax asset has been recognized.

13. RELATED PARTY TRANSACTIONS

Included in accounts payable and accruals is \$nil (2018 – \$nil) payable to Petrogas Energy Corp. and \$301,599 (2018 - \$123,569) payable to Express Tankers Inc., a company related to Petrogas Energy Corp. Included in accounts receivable is \$3,348,612 (2018 - \$4,682,935) due from Petrogas Energy Corp. and \$1,639,146 (2018 - \$1,721,684) due from Petrogas Inc.

The notes payable in note 7 are held by Petrogas Energy Corp. Petrogas has forgiven the interest charges in the amount of \$15,215,805 for the year ended December 31, 2018; and has provided an undertaking to the TSX Venture Exchange that it shall not demand repayment of the notes prior to December 31, 2020 without prior written notice.

The Company has charged Petrogas Energy Corp. \$50,000 per month for services rendered by Midstream Energy Partners division.

An amount of \$78,000 was paid to Petrogas Energy Corp. for office and administrative services provided to the Company.

The remuneration of directors and executive officers during the period is as follows:

	2019	2018
Salaries and other short-term benefits	\$ 42,000	\$ 41,300

14. OPERATING SEGMENTS

For management purposes, the Company is organized into divisions based on their products and services provided. Management monitors the operating results of each division separately for the purpose of making decisions about resource allocation and performance assessment.

14. OPERATING SEGMENTS (continued from previous page)

The Company has two reportable operating segments as follows:

1. Metakaolin - mining, processing and marketing kaolin and metakaolin
2. Commodities - Midstream Energy Partners – managing and marketing commodities

December 2019	Metakaolin	Commodities	Total
Revenue	\$ 181,008	\$ 4,265,535	\$ 4,446,543
Operating costs	(872,293)	-	(872,293)
Amortization and impairment	(663,579)	-	(663,579)
General and administrative	(282,309)	(413,235)	(695,544)
Finance charges	(19,540)	-	(19,540)
Other income	12,315	(130,424)	(118,109)
Income (loss) before taxes	<u>\$ (1,644,398)</u>	<u>\$ 3,721,876</u>	<u>\$ 2,077,478</u>
Current assets	<u>\$ 731,709</u>	<u>\$ 7,783,097</u>	<u>\$ 8,514,806</u>
Total assets	<u>\$ 1,593,309</u>	<u>\$ 7,783,097</u>	<u>\$ 9,376,406</u>
Current liabilities	<u>\$ 24,531,039</u>	<u>\$ 582,382</u>	<u>\$ 25,113,421</u>
Total liabilities	<u>\$ 25,583,186</u>	<u>\$ 582,382</u>	<u>\$ 26,165,568</u>

December 2018	Metakaolin	Commodities	Total
Revenue	\$ 241,457	\$ 2,769,858	\$ 3,011,315
Operating costs	(1,280,924)	-	(1,280,924)
Amortization and impairment	(3,870,831)	-	(3,870,831)
General and administrative	(224,652)	(344,279)	(568,931)
Finance charges	(22,592)	-	(22,592)
Forgiveness of debt	16,084,062	-	16,084,062
Other income	1,889	141,583	143,472
Income (loss) before taxes	<u>\$ 10,928,409</u>	<u>\$ 2,567,162</u>	<u>\$ 13,495,571</u>
Current assets	<u>\$ 944,887</u>	<u>\$ 7,970,197</u>	<u>\$ 8,915,084</u>
Total assets	<u>\$ 2,400,383</u>	<u>\$ 7,970,197</u>	<u>\$ 10,370,580</u>
Current liabilities	<u>\$ 24,726,860</u>	<u>\$ 3,546,135</u>	<u>\$ 28,272,995</u>
Total liabilities	<u>\$ 25,691,085</u>	<u>\$ 3,546,135</u>	<u>\$ 29,237,220</u>

15. CHANGE IN NON-CASH WORKING CAPITAL

	2019	2018
	\$	\$
Accounts receivable	<u>1,066,938</u>	3,695,053
Inventory	<u>194,460</u>	563,537
Prepaid expenses and deposits	<u>8,822</u>	(354)
Accounts payable and accrued liabilities	<u>(2,668,960)</u>	(5,575,851)
Total	<u>(1,398,740)</u>	<u>(1,317,615)</u>

16. FINANCIAL INSTRUMENTS

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

Fair Values

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and notes payable. The fair value of cash, accounts receivable, accounts payable and accrued liabilities, and notes payable approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

The financial assets classified as fair value through profit or loss are measured within level 1 of the fair value hierarchy as described below:

Level 1 – Unadjusted quotes prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Inputs to the valuation methodology are not based on observable market data.

The Company's financial assets carried at fair value are considered Level 1.

Risk Management

The Company's risk management program focuses on minimizing the potential adverse effects on the Company's financial performance. The Company manages risks and risk exposure through a combination of a system of internal and disclosure controls, as well as insurance and sound business practices.

Risk management is primarily the responsibility of the Company's corporate finance function. Any significant risks are monitored and when appropriate, actions will be taken according to the Company's policies established related to that purpose. In addition, as required, the risks are reviewed with the Company's Board of Directors.

Interest Rate Risk

The Company defines interest rate risk as the financial risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company currently maintains cash balances and notes payable. The Company's current policy is to invest any excess cash not required for operations in guaranteed investment certificates with short-term maturities. The Company's sensitivity to interest rate risk on its guaranteed investment certificates is immaterial as the funds available for investment are minimal due to the funds being needed to fund ongoing operations. Any change in interest rates would not result in any material change in expected interest income.

Credit Risk

Credit risk is defined as the financial risk associated with non-performance of contractual obligations by counterparties. Credit risk arises from cash held with the Company's bank along with credit exposure to customers and other outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The Company's objective for managing the counterparty credit risk is to prevent losses on its financial assets. The Company is not yet in full commercial production, but upon full commercial production will assess the credit quality of its counterparties, taking into consideration their financial position, past payment histories and other factors. Management will regularly monitor counterparty credit limits and perform credit reviews. The Company's current sensitivity to credit risk is managed by dealing with reputable customers. Prior to significant commercial sales, relatively minimal supplies are required, with the Company's counterparty credit risk limited to government agencies and select companies that do not present any material concerns.

17. FINANCIAL INSTRUMENTS *(continued from previous page)*

Credit Risk *(continued from previous page)*

The Company's financial assets consist of accounts receivable of \$6,911,667. None of the trade accounts receivable is over 90 days past due. There is a receivable due from Petrogas Inc. in the amount of \$1,639,146, and from Petrogas Energy Corp. in the amount of \$3,348,612 for commodity sales made by Midstream Energy Partners, a division of Whitemud Resources Inc. The allowance for doubtful accounts as at December 31, 2019 is \$nil (2018 - \$nil). Approximately 96% (2018 - 92%) of the Company's sales are with three (2018 - four) customers.

The allowance for doubtful accounts is charged to the statements of net loss and comprehensive loss. Shortfalls in collections are applied against this provision. Estimates for allowance for doubtful accounts are determined by a customer-by customer evaluation of collectability at each statement of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and going concern problems.

Foreign Currency Exchange Risk

The Company currently operates in Canada and deals periodically with suppliers and customers in the United States. The functional currency of the Company and reporting currency is the Canadian dollar. Current dealings with suppliers in the United States are very minimal in comparison to dealings with Canadian suppliers. The Company has not entered into any derivative agreements to mitigate this risk.

As at December 31, 2019, the Company had \$1,262,045 (2018 - \$1,328,464) in US\$ receivables and \$388,353 (2018 - \$2,436,545) in US\$ payables. A 1% change in the exchange rate at December 31, 2019 of the US dollar is estimated to have approximately a \$8,700 effect on the net income and comprehensive income for the year.

Liquidity Risk

The Company defines liquidity risk as the financial risk that the Company will encounter difficulties meeting its obligations associated with financial liabilities. The Company's objective for managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The matters and conditions noted in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

At December 31, 2019, the Company had a working capital deficiency of \$16,598,615 (2018 - \$19,357,911). The Company's trade payables and accrued liabilities are \$973,860 (2018 - \$3,633,434), of which \$nil (2018 - \$8,724) was 90 days overdue.

The Company has demand notes payable in the amount of \$24,139,561 as described in Note 7. The Company has not made the required principal and interest payments under the loan agreement. The lenders agreed to forgive interest in the amount of \$16,084,062, make the notes non-interest bearing and extend the maturity date of the loan to December 31, 2020 unless prior written notice is given. The Company requires the ongoing support of its creditors. All of the Company's operations since 2012 have been funded by Petrogas. As at December 31, 2019, Petrogas has advanced \$7,515,938 (2018 - \$7,515,938) for operational and capital funding.

18. SUBSEQUENT EVENTS

Subsequent to year-end, significant declines in crude oil spot prices and in stock markets have occurred for various reasons linked to the Coronavirus pandemic and other conditions impacting worldwide oil prices. The impairment tests for the Company's property, plant and equipment are based on fair value less costs of disposal. As required by IFRS, management has not reflected these subsequent conditions in the recoverable amount estimates of the Company's assets as at December 31, 2019.

Impairment indicators for the Company's property, plant and equipment could exist subsequent to December 31, 2019, if current conditions persist. Management continues to work on revisions to the Company's forecasts and development plans in light of the current conditions and will use these updated assumptions and forecasts in its impairment indicator analysis and for impairment tests in the first quarter of 2020, if such tests are required.